



# Achieving Quality Examinations through Effective Planning, Execution and Resolution

IRS Large Business and International Division

# IRS exam teams and taxpayers share an interest in completing tax examinations in a fair, efficient and timely manner.

*Timely, clear and consistent communication between taxpayers and IRS exam teams can help keep exams moving forward to conclusion.*

Large Business and International Division (LB&I) tax returns are among the most complex returns the IRS receives, and examinations of those returns can be time-consuming and challenging. IRS agents conducting these exams depend on effective communication and timely exchanges of information with taxpayers to identify and resolve tax issues and keep exams on target for completion.

IRS agents and exam teams retain the authority to determine which issues will be examined, and what documentation is needed to conduct the exam. Timely, clear, and consistent communication between the team and taxpayer during the process can directly influence the scope of the examination and the depth of the analysis for issues under audit.

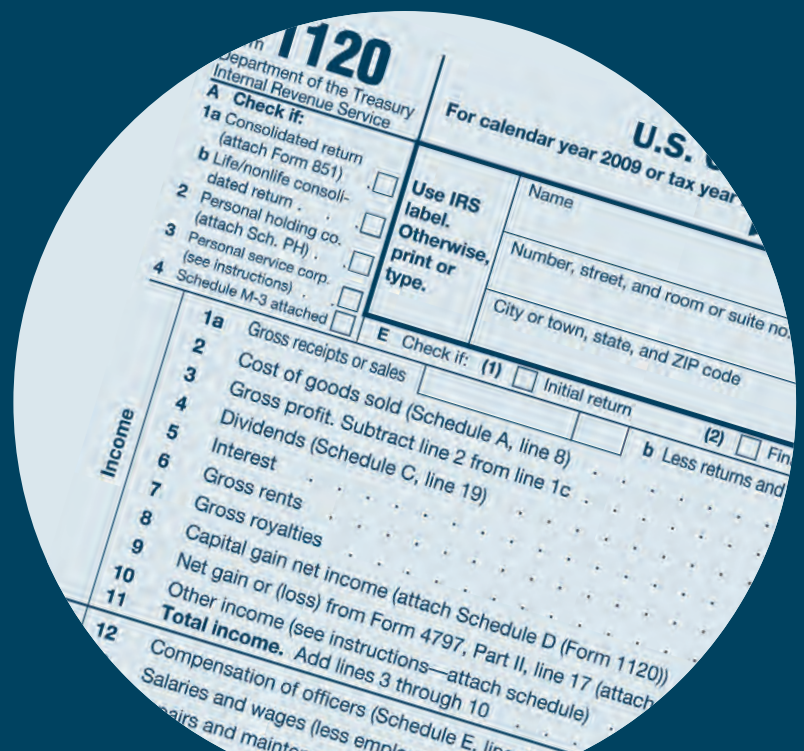
This publication provides an overview of the post-filing examination process. It highlights ways in which exam teams and taxpayers can communicate effectively to help make the exam process run smoothly and conclude as expeditiously as possible. Because not all examinations are the same, portions of this publication may be more applicable to some cases than others.

*LB&I's Quality Examination guidelines provide an organized, consistent framework for administering exams.*

LB&I's Quality Examination guidelines, as outlined in the IRS' Internal Revenue Manual (IRM), provide a framework for effectively managing even the most complex tax examinations. Examinations typically progress in three distinct phases: Planning, execution, and resolution.

Effective coordination and timely communication between exam teams and taxpayers are essential to each of these phases.

• **Planning** • **Execution** • **Resolution.**



# PLANNING

## A Quality Examination Starts with an Effective Plan

*Pre-examination activities, shown below, focus on developing an effective exam plan. Depending on the nature of the exam to be conducted, some of these activities may be more applicable than others.*

### **Pre-exam Analysis:**

The exam team gathers and reviews all pertinent information about the taxpayer that is available publicly and within the Service. The team considers prior tax settlements and/or determinations as it prepares a preliminary compliance risk analysis and identifies potential issues for examination.

### **Initial Planning Meeting:**

The exam team holds an initial planning meeting with the taxpayer. Discussion topics may include, but are not limited to, a review of the preliminary risk analysis; the anticipated exam process for the issues identified, along with timeframes and key milestones; the importance of transparency and openness during the exam process; roles and responsibilities of team members, the taxpayer and its representatives; and the potential involvement of specialists, technical advisors and Counsel.

During the initial meeting, the team and taxpayer discuss possible contingencies resulting from new developments during the exam and/or changes to the exam plan. They review the information document request (IDR) management process; dispute resolution options, such as the Appeals Fast Track Settlement process; LB&I's Rules of Engagement, to be used when elevating problems; ground rules for the frequency of meetings and transmission of information; staffing and resource availability; and logistics (i.e., building access, exam team work space, telephone and internet access, information/data security, secure messaging, office security, etc.).

### **Subsequent Planning Meetings:**

During the initial meeting or as needed through subsequent planning meetings, the exam team and taxpayer discuss prior audit cycle or exam results, if applicable; materiality thresholds relating to identification and selection of examination issues; other potential compliance issues and required compliance checks; affirmative issues and/or claims the taxpayer expects to file; strategies the parties will use for resolving compliance issues; and the use of a mid-cycle risk analysis, if warranted.

### **Taxpayer Orientation:**

During the initial meeting or as soon as possible thereafter, the taxpayer provides a comprehensive orientation of its business operations to the exam team. The orientation includes overviews of the taxpayer's business activities, record keeping and financial statement preparation, operational structure, key functions and an organization chart. The taxpayer explains how it prepares its tax returns, discusses all large or unusual events that occurred in the years under examination, and, if applicable, reviews significant events and/or changes from prior cycles/years.

### **Exchange of Additional Transactional and Financial Information:**

During the initial meeting or shortly thereafter, the taxpayer provides the exam team with relevant business and financial information regarding acquisitions, dispositions, accounting method changes, tax shelters, book-to-tax reconciliations, and all other pertinent information.

### **Finalizing the Exam Plan:**

The exam team uses all the information gathered to develop and finalize an examination plan that specifies the issues to be examined, timeframes, personnel required, processes to be followed, and respective responsibilities. Representatives for both the IRS and the taxpayer sign the examination plan acknowledging their understanding of the plan and commitment to achieving the milestone and timeline dates.





# EXECUTION

## A Quality Examination Depends on Effective Execution

*Quality Examination guidelines emphasize the importance of ongoing dialogue between the exam team and taxpayer throughout execution of the exam plan.*

### Changes to Exam Scope:

The exam team keeps the taxpayer abreast of any potential scope and/or depth changes. This includes decisions to add newly-identified issues to the exam plan and/or remove previously identified issues.

In the event the exam team identifies potentially abusive tax shelters or tiered issues (including listed transactions), the team engages the appropriate Issue Management Team or technical advisor and keeps the taxpayer appropriately informed.

The team may need to conduct a mid-cycle risk analysis to validate the exam scope and progress of the exam plan. If so, the team will discuss findings and recommendations from the analysis with the taxpayer.

### Ongoing Monitoring:

The exam team and taxpayer regularly review their progress towards achieving the agreed-upon milestones. They explicitly identify and discuss timeline slippage, possible causes and mitigation options.

The team and taxpayer create written records of all verbal agreements and commitments. This supports progression of the exam plan by minimizing the possibility for misunderstandings and delays later in the process.

### Discussion of Issues:

Once the examination of an identified tax compliance issue begins, the exam team explains to the taxpayer why the issue was selected for examination. The team asks the taxpayer to provide a briefing on the facts and circumstances related to the issue, as well as an explanation of why the taxpayer treated the issue as presented on the return. The team solicits the taxpayer's input on best approaches

for examining the issue/transaction.

At a minimum, the taxpayer provides an explanation of the facts surrounding the issue. If the issue/transaction under review is particularly complex, then a full briefing and/or presentation by the taxpayer may be appropriate.

### Information Document Requests (IDR):

The exam team and taxpayer reach agreement during the planning phase on procedures for administering IDRs, such as notification and discussion with the taxpayer of the IDR contents, agreements on timeframes for IDR responses, and the IDR management process that will be followed.

The taxpayer delivers all requested information and documents to the team in the agreed-upon timeframe, explains any omissions and/or notifies the team if additional time is required. The team follows up on completed IDRs with appropriate documentation, either closing the issue or requesting additional information in a timely manner and notifying the taxpayer accordingly.



## A Quality Exam Engages Taxpayers through Resolution of All Issues

*Exam resolution takes place in stages throughout the examination, both as individual issues are addressed and when the entire audit is completed. The exam team is responsible for fully and completely developing issues under examination and reaching agreement with the taxpayer as to the relevant facts.*

### **Confirming the facts:**

Generally, prior to the issuance of a Form 5701 - Notice of Proposed Adjustment - the taxpayer and exam team will discuss the issue associated with the proposed adjustment. The taxpayer will, at a minimum, confirm the facts of the issue in question and clarify its position.

Taxpayers should provide additional facts and/or supporting evidence to validate facts presented during issue discussions.

### **Engaging specialists and experts:**

If appropriate, the exam team may engage specialists (e.g., economists, engineers, and financial products experts), technical advisors, Counsel and/or other experts in issue discussions to expedite the resolution process. Taxpayers, likewise, may wish to engage experts or representatives to assist them in the exam process.

### **Issue Resolution Strategies:**

Exam teams encourage the use of appropriate issue resolution strategies (i.e., Fast Track, Rules of Engagement, early referrals to Appeals, etc.) while exams are in progress. A key goal during Resolution is to work proactively with the taxpayer to identify and implement issue resolution strategies, based on the facts and circumstances of the taxpayer's case.

### **Other issues**

Teams discuss with taxpayers any potential identified issues that may warrant a particular settlement initiative treatment. Where applicable, the exam team may discuss with the taxpayer the potential impact of other or related issue(s) on future tax compliance (e.g. closing agreements, global settlements).

### **Determining areas of agreement**

Exam teams and taxpayers determine areas of agreement based on the tax law, as well as areas of disagreement. Exam teams memorialize final determinations of issues (i.e., agreed, disagreed, no change) using appropriate documentation.

### **Next / final steps**

Exam teams keep taxpayers abreast of next steps in the examination process, up through resolution of remaining issues, issuance of the final report and exam case closing.



## Additional taxpayer information resources are available on the IRS Website, [www.irs.gov](http://www.irs.gov):

- ♦ IRM 4.46: LB&I Guide for Quality Examinations
- ♦ Understanding the Large Business and International Division (LB&I) Examination Process
- ♦ Quality Examinations Reference Guide
- ♦ IRM 4.51.1: Rules of Engagement

By adhering to their respective responsibilities and communicating regularly and effectively as described in this publication, exam teams and taxpayers can facilitate an exam process that progresses efficiently and concludes as expeditiously as possible.